

PARK OHIO HOLDINGS CORP

Form 10-Q

November 15, 2010

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2010**
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

**Commission file number 0-3134**

**Park-Ohio Holdings Corp.**  
*(Exact name of registrant as specified in its charter)*

**Ohio**  
*(State or other jurisdiction of  
incorporation or organization)*  
**6065 Parkland Boulevard, Cleveland, Ohio**  
*(Address of principal executive offices)*

**34-1867219**  
*(I.R.S. Employer  
Identification No.)*  
**44124**  
*(Zip Code)*

**440/947-2000**  
**(Registrant's telephone number, including area code)**

**Park-Ohio Holdings Corp. is a successor issuer to Park-Ohio Industries, Inc.**

Indicate by check mark whether the registrant:

- (1) Has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and
- (2) Has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Edgar Filing: PARK OHIO HOLDINGS CORP - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares outstanding of registrant's Common Stock, par value \$1.00 per share, as of October 31, 2010: 11,819,512.

The Exhibit Index is located on page 26.

---

**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u> 3
	<u>Condensed consolidated balance sheets September 30, 2010 and December 31, 2009</u> 3
	<u>Condensed consolidated statements of operations Three and nine months ended September 30, 2010 and 2009</u> 4
	<u>Condensed consolidated statement of shareholders equity Nine months ended September 30, 2010</u> 5
	<u>Condensed consolidated statements of cash flows Nine months ended September 30, 2010 and 2009</u> 6
	<u>Notes to unaudited condensed consolidated financial statements September 30, 2010</u> 7
	<u>Report of independent registered public accounting firm</u> 15
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u> 22
<u>Item 4.</u>	<u>Controls and Procedures</u> 22
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 23
<u>Item 1A.</u>	<u>Risk Factors</u> 24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 24
<u>Item 6.</u>	<u>Exhibits</u> 24
<b><u>SIGNATURE</u></b>	25
<b><u>EXHIBIT INDEX</u></b>	26
<u>EX-4.1</u>	
<u>EX-4.2</u>	
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-15</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	

**Table of Contents****PART I. Financial Information****ITEM 1. *Financial Statements*****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>(Unaudited)</b>	
	<b>September 30,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 35,749	\$ 23,098
Accounts receivable, less allowances for doubtful accounts of \$4,268 at September 30, 2010 and \$8,388 at December 31, 2009	137,024	104,643
Inventories	193,021	182,116
Deferred tax assets	8,104	8,104
Unbilled contract revenue	10,209	19,411
Other current assets	8,332	12,700
Total Current Assets	392,439	350,072
Property, Plant and Equipment	255,866	245,240
Less accumulated depreciation	184,013	168,609
	71,853	76,631
Other Assets		
Goodwill	8,586	4,155
Other	75,071	71,410
	\$ 547,949	\$ 502,268
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities		
Trade accounts payable	\$ 97,476	\$ 75,083
Accrued expenses	61,865	39,150
Current portion of long-term debt	12,115	10,894
Current portion of other postretirement benefits	2,197	2,197
Total Current Liabilities	173,653	127,324
Long-Term Liabilities, less current portion		
8.375% Senior Subordinated Notes due 2014	183,835	183,835
Revolving credit and term loan facility	121,000	134,600

Edgar Filing: PARK OHIO HOLDINGS CORP - Form 10-Q

Other long-term debt	5,407	4,668
Deferred tax liability	7,200	7,200
Other postretirement benefits and other long-term liabilities	21,993	21,831
	339,435	352,134
Shareholders' Equity		
Capital stock, par value \$1 a share:		
Serial Preferred Stock	-0-	-0-
Common Stock	13,369	13,274
Additional paid-in capital	67,476	66,323
Retained deficit	(22,565)	(34,230)
Treasury stock, at cost	(18,397)	(17,443)
Accumulated other comprehensive (loss)	(5,022)	(5,114)
	34,861	22,810
	\$ 547,949	\$ 502,268

Note: The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Amounts in thousands, except per share data)</b>			
Net sales	\$ 202,986	\$ 168,597	\$ 592,990	\$ 513,252
Cost of products sold	168,006	145,938	495,374	437,402
Gross profit	34,980	22,659	97,616	75,850
Selling, general and administrative expenses	22,150	21,701	65,455	66,538
Asset impairment charge	3,539	-0-	3,539	-0-
Operating income	9,291	958	28,622	9,312
Gain on purchase of 8.375% senior subordinated notes	-0-	(2,011)	-0-	(5,108)
Gain on acquisition of business	(2,210)	-0-	(2,210)	-0-
Interest expense	6,469	5,897	18,072	17,996
Income (loss) before income taxes	5,032	(2,928)	12,760	(3,576)
Income taxes	(1,152)	296	1,095	1,838
Net income (loss)	\$ 6,184	\$ (3,224)	\$ 11,665	\$ (5,414)
Amounts per common share:				
Basic	\$ .54	\$ (.29)	\$ 1.03	\$ (.50)
Diluted	\$ .52	\$ (.29)	\$ .99	\$ (.50)
Common shares used in the computation:				
Basic	11,386	11,011	11,282	10,931
Diluted	11,824	11,011	11,773	10,931

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)**

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Deficit (Dollars in thousands)</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total</b>
Balance at January 1, 2010	\$ 13,274	\$ 66,323	\$ (34,230)	\$ (17,443)	\$ (5,114)	\$ 22,810
Comprehensive income:						
Net income			11,665			11,665
Foreign currency translation adjustment					(745)	(745)
Pension and post retirement benefit adjustments, net of tax					837	837
Comprehensive income						11,757
Amortization of restricted stock		1,025				1,025
Restricted share units exchanged for restricted stock	13	(13)				-0-
Restricted stock awards	96	(96)				-0-
Restricted stock cancelled	(14)	14				-0-
Purchase of treasury stock (80,027 shares)				(954)		(954)
Share-based compensation		223				223
Balance at September 30, 2010	\$ 13,369	\$ 67,476	\$ (22,565)	\$ (18,397)	\$ (5,022)	\$ 34,861

See accompanying notes to these unaudited condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Nine Months Ended September 30, 2010                      2009</b>	
	<b>(Dollars in thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 11,665	\$ (5,414)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	12,105	14,121
Share-based compensation expense	1,248	1,861
Gain on acquisition of business	(2,210)	-0-
Asset impairment charge	3,539	-0-
Gain on purchase of 8.375% senior subordinated notes	-0-	(5,107)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	(21,403)	42,928
Inventories and other current assets	20,418	49,000
Accounts payable and accrued expenses	36,899	(67,625)
Other	(12,562)	(560)
Net Cash Provided by Operating Activities	49,699	29,204
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment, net	(2,153)	(4,594)
Acquisitions	(16,000)	-0-
Purchases of marketable securities	-0-	(62)
Sales of marketable securities	-0-	865
Net Cash Used by Investing Activities	(18,153)	(3,791)
<b>FINANCING ACTIVITIES</b>		
Payments on debt, net	(13,800)	(19,441)
Debt issue costs	(4,141)	-0-
Purchase of treasury stock	(954)	-0-
Purchase of 8.375% senior subordinated notes	-0-	(5,108)
Exercise of stock options	-0-	688
Net Cash Used by Financing Activities	(18,895)	(23,861)
Increase (Decrease) in Cash and Cash Equivalents	12,651	1,552
Cash and Cash Equivalents at Beginning of Period	23,098	17,825
Cash and Cash Equivalents at End of Period	\$ 35,749	\$ 19,377
Taxes paid	\$ 1,241	\$ 2,577
Interest paid	13,169	12,506

See accompanying notes to these condensed consolidated financial statements. The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Table of Contents**

**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2010**

**(Dollars and shares in thousands, except per share amounts)**

**NOTE A Basis of Presentation**

The condensed consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries (the Company). All significant intercompany transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**NOTE B Segments**

The Company operates through three segments: Supply Technologies, Aluminum Products and Manufactured Products. Supply Technologies provides our customers with Total Supply Management<sup>tm</sup> services for a broad range of high-volume, specialty production components. Total Supply Management<sup>tm</sup> manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floor, from strategic planning to program implementation and includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. Aluminum Products manufactures cast aluminum components for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment industries. Aluminum Products also provides value-added services such as design and engineering, machining and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of high quality products engineered for specific customer applications.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Results by business segment were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales:				
Supply Technologies	\$ 103,885	\$ 82,464	\$ 295,308	\$ 242,879
Aluminum products	35,554	31,663	109,714	75,656
Manufactured products	63,547	54,470	187,968	194,717
	\$ 202,986	\$ 168,597	\$ 592,990	\$ 513,252
Income (loss) before income taxes:				
Supply Technologies	\$ 6,428	\$ 2,078	\$ 16,223	\$ 5,509
Aluminum products	1,913	(1,337)	6,148	(6,793)
Manufactured products	8,258	3,413	20,787	20,498
	16,599	4,154	43,158	19,214
Corporate expenses	(3,769)	(3,196)	(10,997)	(9,901)
Gain on purchase of 8.375% senior subordinated notes	-0-	2,011	-0-	5,107
Gain on acquisition of business	2,210	-0-	2,210	-0-
Asset impairment charge	(3,539)	-0-	(3,539)	-0-
Interest expense	(6,469)	(5,897)	(18,072)	(17,996)
Income (loss) before income taxes	\$ 5,032	\$ (2,928)	\$ 12,760	\$ (3,576)

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Identifiable assets were as follows:		
Supply Technologies	\$ 244,494	\$ 207,729
Aluminum products	86,430	76,443
Manufactured products	182,336	178,715
General corporate	34,689	39,381
	\$ 547,949	\$ 502,268

**NOTE C Recent Accounting Pronouncements**

Financial Accounting Standards Board ( FASB ) Accounting Standard Codification ( ASC ) Update ( ASU ) No. 2010-06, Improving Disclosure about Fair Value Measurements , requires enhanced disclosures about recurring and nonrecurring fair-value measurements including significant transfers in and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances and settlements on a gross basis of Level 3 fair-value measurements. ASU No. 2010-06 was adopted January 1, 2010, except for the requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 fair value measurements, which is effective January 1, 2011.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements, which amends ASC Topic 605, Revenue Recognition. ASU No. 2009-13 amends the ASC to eliminate the residual method of allocation for multiple-deliverable revenue arrangements, and requires that arrangement consideration be allocated at the inception of an arrangement to all deliverables using the relative selling price method. The ASU also establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence if available, (2) third-party evidence if vendor-specific objective evidence is

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

not available, and (3) estimated selling price if neither vendor-specific nor third-party evidence is available. Additionally, ASU No. 2009-13 expands the disclosure requirements related to a vendor's multiple-deliverable revenue arrangements. The Company is currently evaluating the potential impact, if any, of the adoption of this guidance on its Consolidated Financial Statements, which is effective for the Company on January 1, 2011.

In June 2009, the FASB issued guidance as codified in ASC 810-10, Consolidation of Variable Interest Entities (previously Statement of Financial Accounting Standards ( SFAS ) No. 167, Amendments to FASB Interpretation No. 46(R) ). This guidance is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities ( VIEs ) and by requiring additional disclosures about a company's involvement with variable interest entities. This guidance is generally effective for annual periods beginning after November 15, 2009 and for interim periods within that first annual reporting period. The adoption of this guidance did not have a material impact on the financial statements of the Company.

**NOTE D Inventories**

The components of inventory consist of the following:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Finished goods	\$ 118,199	\$ 100,309
Work in process	24,319	26,778
Raw materials and supplies	50,503	55,029
	<b>\$ 193,021</b>	<b>\$ 182,116</b>

**NOTE E Shareholders Equity**

At September 30, 2010, capital stock consists of (i) Serial Preferred Stock, of which 632,470 shares were authorized and none were issued, and (ii) Common Stock, of which 40,000,000 shares were authorized and 13,369,174 shares were issued, of which 11,815,178 were outstanding and 1,553,996 were treasury shares.

**NOTE F Net Income Per Common Share**

The following table sets forth the computation of basic and diluted earnings per share:

	<b>Three Months Ended September 30, 2010</b>		<b>Nine Months Ended September 30, 2010</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>NUMERATOR</b>				
Net income (loss)	\$ 6,184	\$ (3,224)	\$ 11,665	\$ (5,414)

**DENOMINATOR**

Denominator for basic earnings per share	weighted average				
shares		11,386	11,011	11,282	10,931
Effect of dilutive securities:					
Employee stock options(a)		438	-0-	491	-0-
Denominator for diluted earnings per share	weighted				
average shares and assumed conversions		11,824	11,011	11,773	10,931
Amounts per common share:					
Basic		\$ .54	\$ (.29)	\$ 1.03	\$ (.50)
Diluted		\$ .52	\$ (.29)	\$ .99	\$ (.50)

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (a) No employee stock options were added for this period as the addition of 358,000 shares in the nine months ended September 30, 2009 and 478,000 shares in the three months ended September 30, 2009 would result in anti-dilution because the Company reported a net loss in that period.

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average basic shares outstanding. Diluted earnings per common share is computed as net income available to common shareholders divided by the weighted average diluted shares outstanding.

Pursuant to ASC 260, Earnings Per Share, when a loss is reported the denominator of diluted earnings per share cannot be adjusted for the dilutive impact of stock options and awards because doing so will result in anti-dilution. Therefore, for the nine months ended September 30, 2009, basic weighted-average shares outstanding are used in calculating diluted earnings per share.

Outstanding stock options with exercise prices greater than the average price of the common shares are anti-dilutive and are not included in the computation of diluted earnings per share. Stock options on 206,000 and 207,000 shares were excluded in the three months and nine months ended September 30, 2010, respectively, because they were anti-dilutive.

**NOTE G Stock-Based Compensation**

Total stock compensation expense recorded in the first nine months of 2010 and 2009 was \$1,248 and \$1,861, respectively. Total stock compensation expense recorded in the third quarter of 2010 and 2009 was \$409 and \$658, respectively. There were 624,450 shares of restricted stock awarded during the nine months ended September 30, 2009 at prices ranging from \$3.18 to \$3.74 per share, of which 34,950 shares were awarded in the three months ended September 30, 2009. There were no stock options awarded during the nine months ended September 30, 2010 and 2009. There were 76,000 shares of restricted stock awarded during the three months and nine months ended September 30, 2010 at prices ranging from \$11.65 to \$14.73. As of September 30, 2010, there was \$2,297 of unrecognized compensation cost related to non-vested stock-based compensation, which cost is expected to be recognized over a weighted average period of 1.75 years.

**NOTE H Pension Plans and Other Postretirement Benefits**

The components of net periodic benefit cost recognized during interim periods was as follows:

	<b>Pension Benefits</b>				<b>Postretirement Benefits</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Service costs	\$ 81	\$ 123	\$ 243	\$ 369	\$ 9	\$ 24	\$ 27	\$ 72
Interest costs	643	694	1,929	2,082	248	296	744	888
	(1,984)	(1,758)	(5,952)	(5,275)	-0-	-0-	-0-	-0-



Expected return on plan assets								
Transition obligation	(10)	(10)	(30)	(30)	-0-	-0-	-0-	-0-
Amortization of prior service cost	15	32	45	96	(24)	-0-	(72)	-0-
Recognized net actuarial loss	82	231	246	693	107	119	321	357
Benefit (income) costs	\$ (1,173)	\$ (688)	\$ (3,519)	\$ (2,065)	\$ 340	\$ 439	\$ 1,020	\$ 1,317

During March 2009, the Company suspended indefinitely its voluntary contribution to its 401(k) defined contribution plan covering substantially all U.S. employees.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE I Comprehensive Income**

Total comprehensive income (loss) was as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income (loss)	\$ 6,184	\$ (3,224)	\$ 11,665	\$ (5,414)
Foreign currency translation	5,084	2,245	(745)	1,893
Unrealized loss on marketable securities, net of tax	-0-	-0-	-0-	413
Pension and post retirement benefit adjustments, net of tax	447	373	837	1,082
Total comprehensive income (loss)	\$ 11,715	\$ (606)	\$ 11,757	\$ (2,026)

The components of accumulated comprehensive loss at September 30, 2010 and December 31, 2009 are as follows:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Foreign currency translation adjustment	\$ 6,205	\$ 6,950
Pension and postretirement benefit adjustments, net of tax	(11,227)	(12,064)
	\$ (5,022)	\$ (5,114)

**NOTE J Accrued Warranty Costs**

The Company estimates the amount of warranty claims on sold products that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance. The following table presents the changes in the Company's product warranty liability:

	<b>2010</b>	<b>2009</b>
Balance at January 1	\$ 2,760	\$ 5,402
Claims paid during the year	(789)	(2,456)
Additional warranties issued during the first nine months	1,416	1,312
Balance at September 30	\$ 3,387	\$ 4,258

**NOTE K Income Taxes**

The Company's tax provision for interim periods is determined using an estimate of its annual effective income tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the Company updates the estimated annual effective income tax rate, and if the estimated income tax rate changes, a cumulative adjustment is made.

The 2010 annual effective income tax rate is estimated to be approximately 18% and is lower than the 35% United States federal statutory rate primarily due to anticipated income in the United States for which the Company will record no tax expense and anticipated income earned in jurisdictions outside of the United States where the effective income tax rate is lower than in the United States.

The effective income tax rate in the first nine months of 2010 and 2009 was 9% and (51)%, respectively. The primary reason for the variance in the effective income tax rate is because the Company anticipates full-year 2010 income in the United States with no income taxes at September 30, 2010 and anticipated full-year 2009 losses in the United States with no tax benefit at September 30, 2009. Additionally, during the third quarter of 2010, the Company recognized a \$1,354 tax benefit due to a reversal of a portion of the valuation allowance against its U.S. net deferred tax assets.

**Table of Contents**

**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2009.

**NOTE L Fair Value Measurements**

The Company measures financial assets and liabilities at fair value in three levels of inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is:

*Level 1* Valuations based on quoted prices for identical assets and liabilities in active markets.

*Level 2* Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

*Level 3* Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The fair value of the 8.375% Subordinated Notes due 2014 is estimated based on a third party's bid price. The fair value approximated \$180,618 at September 30, 2010. The fair value of term loans A and B approximated book value at September 30, 2010.

**NOTE M Asset Impairment**

During the third quarter of 2010, the Company reviewed one of its investments and determined there was diminution in value and therefore recorded an asset impairment charge of \$3,539.

**NOTE N Financing Arrangement**

The Company is a party to a credit and security agreement dated November 5, 2003, as amended ( Credit Agreement ), with a group of banks, under which it may borrow or issue standby letters of credit or commercial letters of credit. On March 8, 2010, and subsequently on August 31, 2010, the Credit Agreement was amended and restated to, among other things, extend its maturity date to April 30, 2014 and reduce the loan commitment from \$270,000 to \$210,000, which includes a term loan A for \$28,000 that is secured by real estate and machinery and equipment and an unsecured term loan B for \$12,000. Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 2.25% to 3.25% or (ii) the bank's prime lending rate minus (.25)% to plus .75%, at the Company's election. The interest rate is dependent on the Company's debt service coverage ratio, as defined in the Credit Agreement. Under the Credit Agreement, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. Interest on the term loan A is at either (i) LIBOR plus 3.25% to 4.25% or (ii) the bank's prime lending rate plus .75% to 1.75%, at the Company's election. Interest on the term loan B is at either (i) LIBOR plus 5.25% to 6.25% or (ii) the bank's prime lending rate plus 3.25% to 4.25%, at the Company's election. The term loan A is amortized based on a ten-year schedule with the balance due at maturity. The term loan B is amortized over a two-year period, plus 50% of debt service coverage excess capped at \$3,500.

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long-term debt consists of the following:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
8.375% senior subordinated notes due 2014	\$ 183,835	\$ 183,835
Revolving credit	92,400	101,200
Term loan A	26,600	28,000
Term loan B	9,600	12,000
Other	9,922	8,962
	322,357	333,997
Less current maturities	12,115	10,894
Total	\$ 310,242	\$ 323,103

**NOTE O Accounts Receivable**

During the first nine months of 2010 and 2009, the Company sold approximately \$24,637 and \$14,192, respectively, of accounts receivable to mitigate accounts receivable concentration risk and to provide additional financing capacity and recorded a loss in the amount of \$102 and \$65, respectively in the Condensed Consolidated Statements of Operations. These losses represented implicit interest on the transactions.

**NOTE P Acquisitions**

Effective August 31, 2010, the Company completed the acquisition of certain assets and assumed specific liabilities relating to Assembly Components Systems ( ACS ) business unit of Lawson Products, Inc. for \$16,000 in cash and a \$2,160 subordinated promissory note payable in equal quarterly installments over three years. ACS is a provider of supply chain management solutions for a broad range of production components through its service centers throughout North America. The net assets acquired were integrated into the Company's Supply Technologies business segment. The total purchase price may be adjusted based on the final value of the net assets and liabilities of ACS as of August 31, 2010. The fair value of the net assets acquired of \$20,370 exceeded the total purchase price and, accordingly, resulted in a gain on acquisition of business of \$2,210. Net sales of \$4,400 were added to the Company's Supply Technologies business segment in 2010 since the date of acquisition. The acquisition was accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total estimated purchase price is allocated to ACS's net tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values as of August 31, 2010, the effective date of the acquisition. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed which are based on estimates and assumptions that are subject to change, the preliminary estimated purchase price is allocated as follows:

Accounts receivable	\$ 9,059
Inventories	16,711

Prepaid expenses and other current assets	42
Property, plant and equipment	299
Customer relationships	990
Accounts payable	(5,047)
Accrued expenses	(330)
Deferred tax liability	(1,354)
Gain on acquisition	(2,210)
Total estimated purchase price	\$ 18,160

**Table of Contents****PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The area of purchase price allocation that is not yet finalized relates to the working capital adjustment as of August 31, 2010. Prior to the measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. There were no significant direct transaction costs associated with this acquisition included in selling, general and administrative expenses during the three months and nine months ended September 30, 2010. These costs will be expensed as incurred in the fourth quarter.

On September 30, 2010, the Company entered a Bill of Sale with Rome Die Casting LLC ( Rome ), a producer of aluminum high pressure die castings, pursuant to which Rome agreed to transfer to the Company substantially all of its assets in exchange for approximately \$7,500 of notes receivable due from Rome. The assets of Rome will be integrated into the Company's aluminum segment. The acquisition was accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the purchase price is allocated to Rome's net tangible assets and intangible assets acquired and liabilities assumed based on their estimated fair values as of September 30, 2010, the effective date of the acquisition. Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, the preliminary estimated purchase price is as follows:

Accounts receivable	\$ 1,918
Inventories	1,000
Property, plant and equipment	2,800
Accounts payable	(2,314)
Accrued expenses	(516)
Goodwill	4,572
Total purchase price	\$ 7,460

The following unaudited pro forma information is provided to present a summary of the combined results of the Company's operations with ACS and Rome as if the acquisitions had occurred on January 1, 2009. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of what the results would have been had the acquisitions been completed at the date indicated above.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Pro forma revenues	\$ 216,082	\$ 182,125	\$ 642,685	\$ 553,716
Pro forma net income	5,010	(2,995)	9,043	(8,511)

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
Park-Ohio Holdings Corp.

We have reviewed the accompanying condensed consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of September 30, 2010, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2010 and 2009, and the condensed consolidated statement of shareholders' equity for the nine-month period ended September 30, 2010 and cash flows for the nine-month periods ended September 30, 2010 and 2009. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based upon our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Park-Ohio Holdings Corp. and subsidiaries as of December 31, 2009 and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, not presented herein; and in our report dated March 15, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Cleveland, Ohio  
November 15, 2010



**Table of Contents**

**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

Our condensed consolidated financial statements include the accounts of Park-Ohio Holdings Corp. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

**Executive Overview**

We are an industrial Total Supply Management™ and diversified manufacturing business, operating in three segments: Supply Technologies, Aluminum Products and Manufactured Products. Our Supply Technologies business provides our customers with Total Supply Management™, a proactive solutions approach that manages the efficiencies of every aspect of supplying production parts and materials to our customers' manufacturing floor, from strategic planning to program implementation. Total Supply Management™ includes such services as engineering and design support, part usage and cost analysis, supplier selection, quality assurance, bar coding, product packaging and tracking, just-in-time and point-of-use delivery, electronic billing services and ongoing technical support. The principal customers of Supply Technologies are in the heavy-duty truck, automotive and vehicle parts, electrical distribution and controls, consumer electronics, power sports/fitness equipment, HVAC, agricultural and construction equipment, semiconductor equipment, plumbing, aerospace and defense, and appliance industries. Aluminum Products casts and machines aluminum engine, transmission, brake, suspension and other components such as pump housings, clutch retainers/pistons, control arms, knuckles, master cylinders, pinion housings, brake calipers, oil pans and flywheel spacers for automotive, agricultural equipment, construction equipment, heavy-duty truck and marine equipment original equipment manufacturers (OEMs), primarily on a sole-source basis. Aluminum Products also provides value-added services such as design and engineering and assembly. Manufactured Products operates a diverse group of niche manufacturing businesses that design and manufacture a broad range of highly-engineered products including induction heating and melting systems, pipe threading systems, industrial oven systems, injection molded rubber components, and forged and machined products. Manufactured Products also produces and provides services and spare parts for the equipment it manufactures. The principal customers of Manufactured Products are OEMs, sub-assemblers and end users in the ferrous and non-ferrous metals, silicon, coatings, forging, foundry, heavy-duty truck, construction equipment, automotive, oil and gas, rail and locomotive manufacturing and aerospace and defense industries. Sales, earnings and other relevant financial data for these three segments are provided in Note B to the condensed consolidated financial statements.

During the third quarter of 2010, the Company completed the acquisition of certain assets and assumed specific liabilities relating to the Assembly Components Systems (ACS) business of Lawson Products, Inc. for \$16.0 million in cash and a \$2.2 million subordinated promissory note payable in equal quarterly installments over three years. ACS is a provider of supply chain management solutions for a broad range of production components through its service centers throughout North America. The Company recorded a gain of \$2.2 million representing the excess of the aggregate fair value of purchased net assets over the purchase price. See Note P to the Condensed Consolidated Financial Statements.

During the third quarter of 2010, the Company recorded an asset impairment charge of \$3.5 million related to the write down of one of its investments.

On March 8, 2010 and subsequently on August 31, 2010, we amended our revolving credit facility to, among other things, extend its maturity to April 30, 2014 and reduce the loan commitment from \$270.0 million to \$210.0 million, which amount includes the borrowing under a term loan A for \$28.0 million, that is secured by real estate and machinery and equipment, and an unsecured term loan B for \$12.0 million. See Note M to the Condensed Consolidated Financial Statements.

During the fourth quarter of 2009, the Company recorded \$7.0 million of asset impairment charges associated with general weakness in the economy including the railroad industry. The charges were composed of \$1.8 million of inventory impairment in Cost of Products Sold and \$5.2 million for impairment of property and equipment.

**Table of Contents****Critical Accounting Policies**

Our critical accounting policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended December 31, 2009 contained in our 2009 Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been discussed in the notes to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Condensed Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

**Results of Operations*****Nine Months 2010 versus Nine Months 2009******Net Sales by Segment:***

	<b>Nine Months Ended September 30, 2010      2009</b>		<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>			
Supply Technologies	\$ 295.3	\$ 242.9	\$ 52.4	22%
Aluminum Products	109.7	75.7	34.0	45%
Manufactured Products	188.0	194.7	(6.7)	(3)%
Consolidated Net Sales	\$ 593.0	\$ 513.3	\$ 79.7	16%

Net sales increased \$79.7 million to \$593.0 million in the first nine months of 2010 compared to \$513.3 million in the same period in 2009 as the Company experienced volume increases in the Supply Technologies and Aluminum Products segments. Supply Technologies sales increased 22% primarily due to volume increases in the heavy duty truck, semi-conductor, power sports, HVAC, agricultural and construction equipment industries. In addition, there were \$4.4 million of sales resulting from the acquisition of the ACS business. These additions were offset by declines in the lawn and garden, medical and automotive industries. Aluminum Products sales increased 45% as volumes increased to customers in the auto industry along with additional sales from new contracts. Manufactured Products sales decreased 3% due to the declining volume in the forged and machined products business unit because of volume declines in the rail industry partially offset by increases in the capital equipment and rubber products business units.

***Cost of Products Sold & Gross Profit:***

	<b>Nine Months Ended September 30, 2010      2009</b>		<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>			

Consolidated cost of products sold	\$ 495.4	\$ 437.4	\$ 58.0	13%
Consolidated gross profit	\$ 97.6	\$ 75.9	\$ 21.7	29%
Gross Margin	16.5%	14.8%		

Cost of products sold increased \$58.0 million in the first nine months of 2010 to \$495.4 million compared to \$437.4 million in the same period in 2009, while gross margin increased to 16.5% in the first nine months of 2010 from 14.8% in the same period in 2009.

Supply Technologies and Aluminum Products gross margin increased resulting from volume increases, while gross margin in the Manufactured Products segment was unchanged from the same period in the prior year.

**Table of Contents*****Selling, General & Administrative (SG&A) Expenses:***

	<b>Nine Months Ended September 30, 2010      2009 (Dollars in millions)</b>		<b>Change</b>	<b>Percent Change</b>
Consolidated SG&A expenses	\$ 65.5	\$ 66.5	\$ (1.0)	(2)%
SG&A percent	11.0%	13.0%		

Consolidated SG&A expenses decreased 2% in the first nine months of 2010 compared to the same period in 2009, representing a 200 basis point decrease in SG&A expenses as a percent of sales. SG&A expenses decreased in the first nine months of 2010 compared to the same period in 2009 primarily due to an increase in pension income and the \$2.0 million charge in 2009 for a reserve for an account receivable from a customer in bankruptcy partially offset by an increase in salaries and benefits levels resulting from restoration to 2008 salary levels along with a bonus accrual.

***Gain on Purchase of 8.375% Senior Subordinated Notes:***

During the first nine months of 2009, the Company recorded a gain of \$5.1 million on the purchase of \$6.125 million principal amount of Park-Ohio Industries, Inc. 8.375% senior subordinated notes due 2014.

***Interest Expense:***

	<b>Nine Months Ended September 30, 2010      2009 (Dollars in millions)</b>		<b>Change</b>	<b>Percent Change</b>
Interest expense	\$ 18.1	\$ 18.0	\$ 0.1	1%
Average outstanding borrowings	\$ 324.2	\$ 371.2	\$ (47.0)	(13)%
Average borrowing rate	7.44%	6.46%	98	basis points

Interest expense increased \$.1 million in the first nine months of 2010 compared to the same period of 2009, primarily due to lower average outstanding borrowings offset by a higher average borrowing rate during the first nine months of 2010. The decrease in average borrowings in the first nine months of 2010 resulted primarily from earnings and decreased working capital. The higher average borrowing rate in the first nine months of 2010 was due primarily to increased interest rates under our amended revolving credit facility compared to the same period in 2009.

***Income Tax:***

The provision for income taxes was \$1.1 million in the first nine months of 2010, a 9% effective income tax rate, compared to income taxes of \$1.8 million provided in the corresponding period of 2009, a (51)% effective income tax rate. We estimate that the effective tax rate for full-year 2010 will be approximately 18%, excluding the third quarter of 2010 valuation allowance reversal.

**Results of Operations**

*Third Quarter 2010 versus Third Quarter 2009**Net Sales by Segment:*

	<b>Three Months Ended September 30, 2010      2009</b>		<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>			
Supply Technologies	\$ 103.9	\$ 82.5	\$ 21.4	26%
Aluminum Products	35.6	31.6	4.0	13%
Manufactured Products	63.5	54.5	9.0	17%
Consolidated Net Sales	\$ 203.0	\$ 168.6	\$ 34.4	20%

**Table of Contents**

Consolidated net sales increased \$34.4 million in the third quarter of 2010 to \$203.0 compared to \$168.6 million in the same quarter of 2009 as the Company experienced volume increases in the Supply Technologies and Aluminum Products segments. Supply Technologies sales increased 26% primarily due to volume increases in the truck, power sports, semi-conductor, HVAC, agricultural and construction equipment and industrial equipment industries offset by declines in the automotive industry. In addition, there were \$4.4 million of sales resulting from the acquisition of the ACS business. Aluminum Products sales increased 13% as auto industry sales volumes increased along with additional sales from new contracts. Manufactured Products sales increased 17% resulting from higher sales in the capital equipment and rubber products business units offset by lower sales in the forged and machined products business unit because of volume declines in the rail industry.

**Cost of Products Sold & Gross Profit:**

	<b>Three Months Ended September 30, 2010      2009 (Dollars in millions)</b>		<b>Change</b>	<b>Percent Change</b>
Consolidated cost of products sold	\$ 168.0	\$ 145.9	\$ 22.1	15%
Consolidated gross profit	\$ 35.0	\$ 22.7	\$ 12.3	54%
Gross Margin	17.2%	13.5%		

Cost of products sold increased \$22.1 million to \$168.0 million in the third quarter of 2010 compared to \$145.9 million for the same quarter of 2009, while gross margin increased to 17.2% in the third quarter of 2010 from 13.5% in the same quarter of 2009.

Gross margin increased in each of the segments resulting from volume increases.

**SG&A Expenses:**

	<b>Three Months Ended September 30, 2010      2009 (Dollars in millions)</b>		<b>Change</b>	<b>Percent Change</b>
Consolidated SG&A expenses	\$ 22.2	\$ 21.7	\$ .5	2%
SG&A percent	10.9%	12.9%		

Consolidated SG&A expenses increased \$.5 million in the third quarter of 2010 compared to the same quarter in 2009, representing a decrease in SG&A expenses as a percent of sales of 200 basis points from 12.9% to 10.9%. SG&A expenses increased in the third quarter of 2010 compared to the same quarter in 2009 primarily due to an increase in salaries and benefits levels resulting from restoration to 2008 salary levels along with a bonus accrual, partially offset by an increase in pension income and a \$2.0 million charge in the third quarter of 2009 for a reserve for an account receivable from a customer in bankruptcy.

***Gain on Purchase of 8.375% Senior Subordinated Notes:***

During the third quarter of 2009, the Company recorded a gain of \$2.0 million on the purchase of \$6.125 million principal amount of Park-Ohio Industries, Inc. 8.375% senior subordinated notes due 2014.

***Interest Expense:***

	<b>Three Months Ended September 30, 2010          2009</b>		<b>Change</b>	<b>Percent Change</b>
	<b>(Dollars in millions)</b>			
Interest expense	\$ 6.5	\$ 5.9	\$ .6	10%
Average outstanding borrowings	\$ 315.4	\$ 357.1	\$ (41.7)	(12)%
Average borrowing rate	8.24%	6.61%	163	basis points



## **Table of Contents**

Interest expense increased \$0.6 million in the third quarter of 2010 compared to the same period of 2009, primarily due to lower average outstanding borrowings in 2010 offset by a higher average borrowing rate during the third quarter of 2010. The decrease in average borrowings in the third quarter of 2010 resulted primarily from earnings and a reduction in working capital. The higher average borrowing rate in the third quarter of 2010 was due primarily to increased interest rates under our amended revolving credit facility compared to the same period in 2009.

### ***Income Tax:***

The provision for income taxes was \$(1.2) million in the third quarter of 2010, a (24)% effective income tax rate, compared to income taxes of \$0.3 million provided in the corresponding quarter of 2009, a (10)% effective income tax rate. We estimate that the effective tax rate for full-year 2010 will be approximately 18%, excluding the third quarter of 2010 valuation allowance reversal.

### **Liquidity and Sources of Capital**

Our liquidity needs are primarily for working capital and capital expenditures. Our primary sources of liquidity have been funds provided by operations and funds available from existing bank credit arrangements and the sale of our senior subordinated notes. In 2003, we entered into a revolving credit facility with a group of banks which, as subsequently amended, matures at April 30, 2014 and provides for availability of up to \$170 million subject to an asset-based formula. We have the option to increase the availability under the revolving loan portion of the credit facility by \$25 million. The revolving credit facility is secured by substantially all our assets in the United States and Canada. Borrowings from this revolving credit facility will be used for general corporate purposes. On March 8, 2010 and subsequently on August 31, 2010, the revolving credit facility was amended and restated to, among other things, extend its maturity date to April 30, 2014, reduce the loan commitment from \$270.0 million to \$210.0 million, which amount includes a term loan A for \$28.0 million (\$26.6 million outstanding at September, 2010) that is secured by real estate and machinery and equipment and an unsecured term loan B for \$12.0 million (\$9.6 million outstanding at September 30, 2010). Amounts borrowed under the revolving credit facility may be borrowed at either (i) LIBOR plus 2.25% to 3.25% or (ii) the bank's prime lending rate minus .25% to plus .75%, at the Company's election. The LIBOR-based interest rate is dependent on the Company's debt service coverage ratio, as defined in the revolving credit facility. Under the revolving credit facility, a detailed borrowing base formula provides borrowing availability to the Company based on percentages of eligible accounts receivable and inventory. Interest on the term loan A is at either (i) LIBOR plus 3.25% to 4.25% or (ii) the bank's prime lending rate plus .75% to 1.75%, at the Company's election. Interest on the term loan B is at either (i) LIBOR plus 5.25% to 6.25% or (ii) the bank's prime lending rate plus 3.25% to 4.25%, at the Company's election. The term loan A is amortized based on a ten-year schedule with the balance due at maturity. The term loan B is amortized over a two-year period, plus 50% of debt service coverage excess capped at \$3.5 million.

As of September 30, 2010, the Company had \$128.6 million outstanding under the revolving credit facility, and approximately \$50.4 million of unused borrowing availability.

Current financial resources (working capital and available bank borrowing arrangements) and anticipated funds from operations are expected to be adequate to meet current cash requirements for at least the next twelve months. The future availability of bank borrowings under the revolving loan portion of the credit facility is based on the Company's ability to meet a debt service ratio covenant, which could be materially impacted by negative economic trends. Failure to meet the debt service ratio could materially impact the availability and interest rate of future borrowings.

The Company may from time to time seek to retire or purchase its outstanding debt through cash purchases and/or exchanges for equity securities or in open market purchases, privately negotiated transactions or otherwise. It may also repurchase shares of its outstanding common stock. Such repurchases or exchanges, if any, will depend on

prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

At September 30, 2010, the Company's debt service coverage ratio was 2.1, and, therefore, it was in compliance with the debt service coverage ratio covenant contained in the revolving credit facility. The Company was also in compliance with the other covenants contained in the revolving credit facility as of September 30, 2010. The debt service coverage ratio is calculated at the end of each fiscal quarter and is based on the most recently ended four fiscal quarters of consolidated EBITDA minus cash taxes paid, minus unfunded capital expenditures, plus cash

## **Table of Contents**

tax refunds to consolidated debt charges which are consolidated cash interest expense plus scheduled principal payments on indebtedness plus scheduled reductions in our term debt as defined in the revolving credit facility. The debt service coverage ratio must be greater than 1.0 and not less than 1.1 for any two consecutive fiscal quarters. While we expect to remain in compliance throughout 2010, declines in demand in the automotive industry and in sales volumes in 2010 could adversely impact our ability to remain in compliance with certain of these financial covenants. Additionally, to the extent our customers are adversely affected by declines in demand in the automotive industry or the economy in general, they may not be able to pay their accounts payable to us on a timely basis or at all, which would make the accounts receivable ineligible for purposes of the revolving credit facility and could reduce our borrowing base and our ability to borrow under such facility.

The ratio of current assets to current liabilities was 2.26 at September 30, 2010 versus 2.75 at December 31, 2009. Working capital decreased by \$3.9 million to \$218.8 million at September 30, 2010 from \$222.7 million at December 31, 2009. Accounts receivable increased \$32.4 million to \$137.0 million at September 30, 2010 from \$104.6 million in 2009 primarily resulting from the acquisitions in 2010 and sales volume increases. Inventory increased by \$10.9 million at September 30, 2010 to \$193.0 million from \$182.1 million at December 31, 2009 primarily resulting from the two acquisitions in 2010 and planned reductions and sales volumes increases. Accrued expenses increased by \$22.8 million to \$61.9 million at September 30, 2010 from \$39.1 at December 31, 2009 primarily resulting from increases in advance billings, the accrual for income taxes, accrual for salaries and wages because of the timing of pay dates and bonus accrual increases and accounts payable increased \$22.4 million to \$97.5 million at September 30, 2010 from \$75.1 million at December 31, 2009.

During the first nine months of 2010, the Company provided \$49.7 million from operating activities compared to \$29.2 million in the same period of 2009. The increase in the operating cash provision of \$20.5 million was primarily the result of net income of \$11.7 million in the first nine months of 2010 compared to a net loss of \$5.4 million in the first nine months of 2009, (a change of \$17.1 million), a decrease in operating assets and liabilities of \$23.4 million in the first nine months of 2010 compared to a decrease of \$23.7 million in the first nine months of 2009 offset by a reduction of depreciation and amortization expense of \$2.0 million in the first nine months of 2010 compared to the first nine months of 2009. In the first nine months of 2010, the Company used cash of \$2.2 million for capital expenditures and made an acquisition for \$16.0 million in cash. These activities, plus cash interest and tax payments of \$14.4 million, a net reduction in borrowings of \$13.8 million, purchase of treasury stock of \$1.0 million and debt issue costs of \$4.1 million resulted in an increase in cash of \$12.7 million in the first nine months of 2010.

We do not have off-balance sheet arrangements, financing or other relationships with unconsolidated entities or other persons. There are occasions whereupon we enter into forward contracts on foreign currencies, primarily the euro and British Pound Sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. At September 30, 2010, none were outstanding. We currently have no other derivative instruments.

## **Seasonality; Variability of Operating Results**

Our results of operations are typically stronger in the first six months than the last six months of each calendar year due to plant maintenance scheduled in the third quarter to coincide with customer plant shutdowns and due to holidays in the fourth quarter.

The timing of orders placed by our customers has varied with, among other factors, orders for customers finished goods, customer production schedules, competitive conditions and general economic conditions. The variability of the level and timing of orders has, from time to time, resulted in significant periodic and quarterly fluctuations in the operations of our business units. Such variability is particularly evident at the capital equipment businesses, included in the Manufactured Products segment, which typically ship a few large systems per year.

**Forward-Looking Statements**

This Form 10-Q contains certain statements that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words believes , anticipates , plans , expects , intends , estimates and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our

## **Table of Contents**

actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These uncertainties and other factors include such things as: general business conditions and competitive factors, including pricing pressures and product innovation; demand for our products and services; raw material availability and pricing; changes in our relationships with customers and suppliers; the financial condition of our customers, including the impact of any bankruptcies; our ability to successfully integrate recent and future acquisitions into existing operations; changes in general domestic economic conditions such as inflation rates, interest rates, and tax rates; adverse impacts to us, our suppliers and customers from acts of terrorism or hostilities; our ability to meet various covenants, including financial covenants, contained in our revolving credit agreement and the indenture governing our senior subordinated notes; increasingly stringent domestic and foreign governmental regulations, including those affecting the environment; inherent uncertainties involved in assessing our potential liability for environmental remediation-related activities; the outcome of pending and future litigation and other claims; dependence on the automotive and heavy-duty truck industries, which are highly cyclical; dependence on key management; and dependence on information systems. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In light of these and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved.

### **Review By Independent Registered Public Accounting Firm**

The condensed consolidated financial statements at September 30, 2010, and for the three-month and nine-month periods ended September 30, 2010 and 2009, have been reviewed, prior to filing, by Ernst & Young LLP, our independent registered public accounting firm, and their report is included herein.

### **Item 3. *Quantitative and Qualitative Disclosure About Market Risk***

We are exposed to market risk including changes in interest rates. We are subject to interest rate risk on borrowings under our floating rate revolving credit agreement, which consisted of borrowings of \$128.6 million at September 30, 2010. A 100 basis point increase in the interest rate would have resulted in an increase in interest expense of approximately \$1.0 million during the nine-month period ended September 30, 2010.

Our foreign subsidiaries generally conduct business in local currencies. During the first nine months of 2010, we recorded an unfavorable foreign currency translation adjustment of \$.7 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the weakening of the U.S. dollar. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

The Company periodically enters into forward contracts on foreign currencies, primarily the euro and the British Pound Sterling, purely for the purpose of hedging exposure to changes in the value of accounts receivable in those currencies against the U.S. dollar. The Company currently uses no other derivative instruments. At September 30, 2010, there were no such currency hedge contracts outstanding.

### **Item 4. *Controls and Procedures***

Under the supervision of and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report.

Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were effective.

There have been no changes in our internal control over financial reporting that occurred during the third quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II**

**OTHER INFORMATION**

**Item 1. *Legal Proceedings***

We are subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from currently pending or threatened litigation are not expected to have a material adverse effect on our financial condition, liquidity or results of operations.

At September 30, 2010, we were a co-defendant in approximately 300 cases asserting claims on behalf of approximately 1,240 plaintiffs alleging personal injury as a result of exposure to asbestos. These asbestos cases generally relate to production and sale of asbestos-containing products and allege various theories of liability, including negligence, gross negligence and strict liability and seek compensatory and, in some cases, punitive damages.

In every asbestos case in which we are named as a party, the complaints are filed against multiple named defendants. In substantially all of the asbestos cases, the plaintiffs either claim damages in excess of a specified amount, typically a minimum amount sufficient to establish jurisdiction of the court in which the case was filed (jurisdictional minimums generally range from \$25,000 to \$75,000), or do not specify the monetary damages sought. To the extent that any specific amount of damages is sought, the amount applies to claims against all named defendants.

There are only five asbestos cases, involving 25 plaintiffs, that plead specified damages. In each of the five cases, the plaintiff is seeking compensatory and punitive damages based on a variety of potentially alternative causes of action. In three cases, the plaintiff has alleged compensatory damages in the amount of \$3.0 million for four separate causes of action and \$1.0 million for another cause of action and punitive damages in the amount of \$10.0 million. In the fourth case, the plaintiff has alleged against each named defendant, compensatory and punitive damages each in the amount of \$10.0 million for seven separate causes of action. In the fifth case, the plaintiff has alleged compensatory damages in the amount of \$20.0 million for three separate causes of action and \$5.0 million for another cause of action and punitive damages in the amount of \$20.0 million.

Historically, we have been dismissed from asbestos cases on the basis that the plaintiff incorrectly sued one of our subsidiaries or because the plaintiff failed to identify any asbestos-containing product manufactured or sold by us or our subsidiaries. We intend to vigorously defend these asbestos cases, and believe we will continue to be successful in being dismissed from such cases. However, it is not possible to predict the ultimate outcome of asbestos-related lawsuits, claims and proceedings due to the unpredictable nature of personal injury litigation. Despite this uncertainty, and although our results of operations and cash flows for a particular period could be adversely affected by asbestos-related lawsuits, claims and proceedings, management believes that the ultimate resolution of these matters will not have a material adverse effect on our financial condition, liquidity or results of operations. Among the factors management considered in reaching this conclusion were: (a) our historical success in being dismissed from these types of lawsuits on the bases mentioned above; (b) many cases have been improperly filed against one of our subsidiaries; (c) in many cases, the plaintiffs have been unable to establish any causal relationship to us or our products or premises; (d) in many cases, the plaintiffs have been unable to demonstrate that they have suffered any identifiable injury or compensable loss at all, that any injuries that they have incurred did in fact result from alleged exposure to asbestos; and (e) the complaints assert claims against multiple defendants and, in most cases, the damages alleged are not attributed to individual defendants. Additionally, we do not believe that the amounts claimed in any of

the asbestos cases are meaningful indicators of our potential exposure because the amounts claimed typically bear no relation to the extent of the plaintiff's injury, if any.

Our cost of defending these lawsuits has not been material to date and, based upon available information, our management does not expect its future costs for asbestos-related lawsuits to have a material adverse effect on our results of operations, liquidity or financial position.



**Table of Contents****Item 1A. Risk Factors**

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Set forth below is information regarding the Company's repurchases of its common stock during the third quarter ended September 30, 2010.

Period	Total	Average Price Paid	Total Number	Maximum Number of Shares That May Yet Be Purchased Under the
	Number of Shares Purchased		of Shares Purchased as Part of Publicly Announced Plans(1)	
July 1 - July 31, 2010	4,767	\$ 15.11	-0-	340,920
August 1 - August 31, 2010	232(2)	11.83	-0-	340,920
September 1 - September 30, 2010	9,735(2)	11.59	-0-	340,920
	14,734	\$ 12.76	-0-	340,920

(1) In 2006, the Company announced a share repurchase program whereby the Company may repurchase up to 1.0 million shares of its common stock.

(2) Consist of shares of common stock the Company acquired from recipients of restricted stock awards at the time of vesting of such awards in order to settle recipient withholding tax liabilities.

**Item 6. Exhibits**

The following exhibits are included herein:

- 4.1 Consent and Amendment No. 1 to Third Amended and Restated Credit Agreement
- 4.2 Consent and Amendment No. 2 to Third Amended and Restated Credit Agreement
- 10.1 Asset Purchase Agreement By and Among Assembly Component Systems, Inc., Lawson Products, Inc., Supply Technologies LLC and Park-Ohio Industries, Inc.
- 10.2 Bill of Sale by Rome Die Casting LLC and Johnny Johnson in favor of General Aluminum Mfg. Company
- 15 Letter re: unaudited interim financial information
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification requirement under Section 906 of the Sarbanes-Oxley Act of 2002



**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PARK-OHIO HOLDINGS CORP.

(Registrant)

By /s/ Jeffrey L. Rutherford

Name: Jeffrey L. Rutherford

Title: Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: November 15, 2010

**Table of Contents**

**EXHIBIT INDEX**  
**QUARTERLY REPORT ON FORM 10-Q**  
**PARK-OHIO HOLDINGS CORP. AND SUBSIDIARIES**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

**Exhibit**

- 4.1 Consent and Amendment No. 1 to Third Amended and Restated Credit Agreement
- 4.2 Consent and Amendment No. 2 to Third Amended and Restated Credit Agreement
- 10.1 Asset Purchase Agreement By and Among Assembly Component Systems, Inc., Lawson Products, Inc., Supply Technologies LLC and Park-Ohio Industries, Inc.
- 10.2 Bill of Sale by Rome Die Casting LLC and Johnny Johnson in favor of General Aluminum Mfg. Company
- 15 Letter re: unaudited interim financial information
- 31.1 Principal Executive Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification requirement under Section 906 of the Sarbanes-Oxley Act of 2002